

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

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**ADMINISTRATIVE RULE
FISCAL IMPACT STATEMENT**

PROPOSED RULE: 00-277

DATE PREPARED: Dec 9, 2001

STATE AGENCY: Office of the Sec. of Family and Social Services

DATE RECEIVED: Nov 1, 2001

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Digest of Proposed Rule: This rule amends 405 IAC 1-14.6-2, 405 IAC 1-14.6-3, 405 IAC 1-14.6-4, 405 IAC 1-14.6-5, 405 IAC 1-14.6-6, 405 IAC 1-14.6-7, 405 IAC 1-14.6-9, and 405 IAC 1-14.6-20 to revise case-mix reimbursement methodology by modifying the payment methodology for therapy, for repairs and maintenance costs, to reduce the profit add-on percentage, and for updating case-mix indices. The rule also amends 405 IAC 1-15-1, 405 IAC 1-15-5, and 405 IAC 1-15-6 to clarify when MDS assessments are due at the conclusion of therapies and to make technical changes. NOTE: Under IC 4-22-2-40, LSA Document #00-277, printed at 24 IR 3169, was recalled by the Office of the Secretary of Family and Social Services. This document is a revised version of the recalled document.

The rule makes the following specific changes to the case-mix reimbursement methodology for nursing facilities.

- (1) Removes therapy from the direct care component and reimburses those services as a separate pass-through component.
- (2) Utilizes the RUG-III version 5.12, 34-grouper resident classification system with updated case-mix indices.
- (3) Moves repairs and maintenance costs from the capital component (limited to 80% of median costs), to the indirect care component (limited to 100% of median costs).
- (4) Reduces the profit add-on share percentage for the direct and indirect care components from 60% to 52%.
- (5) Establishes caps on the inflationary factor used to project provider costs when setting rates beginning on the effective date of the rule, October 1, 2001, through September 30, 2003.
- (6) Makes some minor technical changes to MDS (Minimum Data Set) terminology and the audit process.

Governmental Entities:

State: The state share of Medicaid nursing facility expenditures resulting from this rule change is estimated to be \$7.6 M in FY 2002 and \$10.6 M in FY 2003. (This is based on an estimated \$26.5 M aggregate reduction in expenditures with 75% occurring in the first year and with a 5% inflation factor for the second year. State share of Medicaid expenditures is about 38%.)

This rule places no unfunded mandates upon state government.

Local: Currently, there are six county-owned nursing facilities that would be subject to this rule change. One of the facilities would see a rate increase resulting in an estimated increased reimbursement of about \$23,000 (4.8% increase), while the other five facilities would see a rate decrease resulting in an aggregate decrease in reimbursement of about \$150,000 (1.3% decrease).

This rule places no unfunded mandates upon any local government unit.

Regulated Entities: There are about 511 nursing facilities in the Medicaid program that will be affected by this rule change. The aggregate decrease in Medicaid payments to nursing facilities is estimated to be about \$26.5 M on an annual basis. The relative impact of each of the provisions on provider reimbursement is as follows.

(1) Removing therapy from the direct care component and (2) Utilizing the RUG-III version 5.12, 34-grouper resident classification system: *\$4.9 M increase*

(3) Moving repairs and maintenance costs from capital to the indirect care component: *\$3.4 M increase*

(4) Reducing the profit add-on to 52%: *\$5.5 M decrease*

(5) Establishing caps on the inflationary factor: *\$29.3 M decrease*

The number of facilities by type that are estimated to have increased or decreased rates as a result of this rule change are presented in the following table. (Note: This table is based on 494 facilities for which cost reports were available.)

Type of Facility	No. With Increased Rates	No. With Decreased Rates	Aggregate Rate Impact
Government-Owned	1	5	-1.1%
Not-For-Profits	12	103	-2.1%
For-Profits	31	342	-2.5%
Total	44	450	-2.4%

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